RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Post Office Box 1759, La Jolla, California 92038

26 Letters Per Year • $250 annually

May 20, 1998 **LETTER 1252**

May 8 DJIA 9055.15; PTI 5347; A-D Ratio +11.82
May 15 DJIA 9096.25; PTI 5343; A-D Ratio +11.27
Dow Yield: 1.56%; Dow Price/Earnings: 23.4
Dow 144-day MA: 8453; Dow 34-day MA: 9015
Dow Times Book Value: 6.43; PTI 89-day MA: 5285
Percentage of Undervalued Blue-chips: 3%
Gold 34-day MA: 305

THE PICTURE: Nobody tells the market story like the stock market itself. So let's see what kind of a story the market is telling.

On April 21, the two Dow Jones Averages recorded joint new highs, with the Industrials at **9184.94** and the Transports at **3684.91.** From there the market sold off for five days, following which the market rallied again. On the rally, the Industrials advanced to a new bull market high, closing on May 4 at **9192.66**. Next a dip, followed by yet another high on May 13 at **9211.84.** The Transports failed repeatedly (and by a wide margin) to confirm -- see page 1 chart.

Question: How important is the non-confirmation that you've just described?

Answer: Every non-confirmation is potentially important. However, following the April 21 peak the market declined for only five days. Had the decline been larger and lasted longer, the situation would be more serious. As matters stand, the decline from the April 21 high may turn out to be important, but if so, the market will have to prove it. So far, to the frustration of the bears, the market has ignored the non-confirmation.

If you're worried and watching for trouble, write these two numbers down - **8898.96** for the Dow, **1085.11** for the S&P 500. As long as the averages hold above these two numbers, the bulls will be in command. Breaking below these two numbers equals trouble.

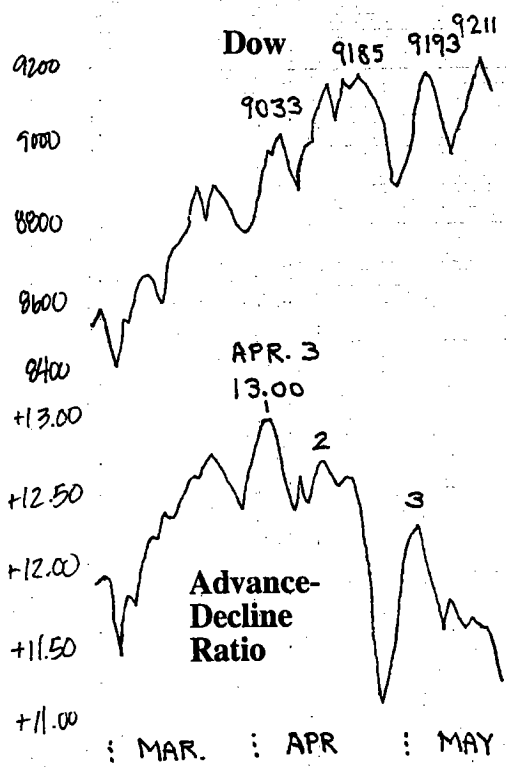
Question: Russell, how much importance do you give to the Transports breaking down? Could this be the early formation of a major top? Could it even be the first hint of a coming bear market?

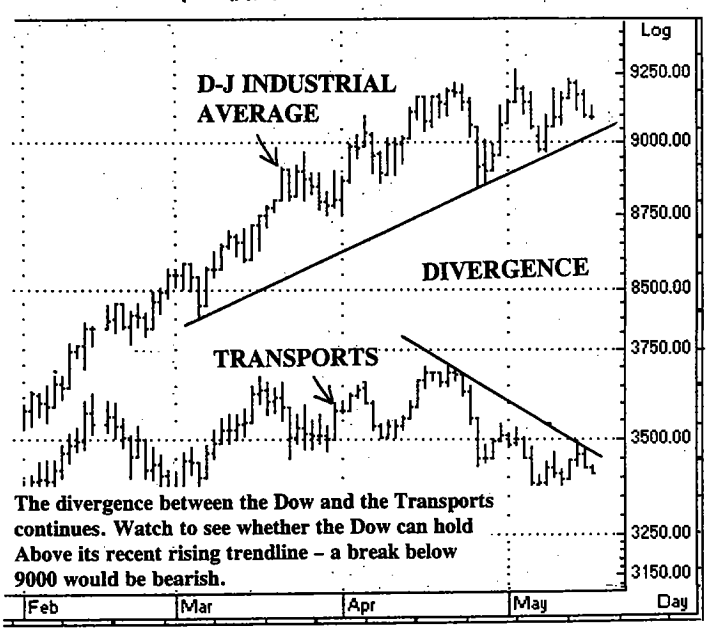
Answer: Primary bear markets are rare, so the odds are always against the inception of a true bear market. But it's well to remember that this is an ancient bull market, and it's a bull market that's in its most over-valued, most speculative phase. So any divergence or non-confirmation in the averages could be a first hint of trouble.

Nevertheless, it's too early to know whether this, the greatest bull market in history, is even close to breathing its last. The first hint of potential danger was the non-confirmation by the Transports (i.e., the Transports failing to confirm the series of new Dow highs).

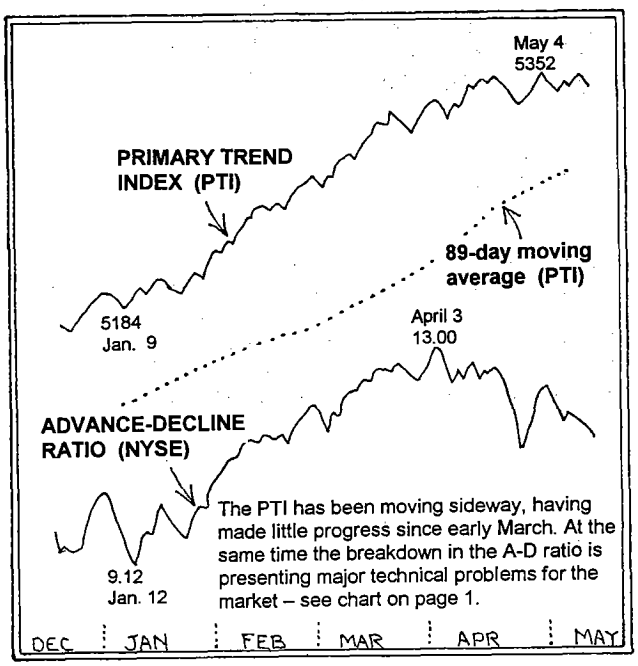
Another potential source of trouble is the **breadth** (advances and declines) which has not only been lagging but actually **diverging** from the much stronger major stock averages. This chart shows the Dow and the advance-decline ratio. Here we see the Dow rising in a series of **higher peaks** contrasted with a remarkable series of **descending peaks** in the A-D ratio. This is known as "the troops not following the generals," and in the past, this has been the recipe for many a market top.

But this great bull market has already brushed aside almost every measure of valuation plus almost every known technical danger signal. It remains to be seen whether the bull market can continue to ignore the current dramatic divergence between price and breadth - as well, of course, as ignoring the non-confirmation on the part of the Transportation Average.





The divergence between the Dow and the Transports continues. Watch to see whether the Dow can hold Above its recent rising trendline - a break below 9000 would be bearish.



Conclusion: The Dow has continued to plow ahead to new record highs, despite the dicey technical background. It's now a question of whether the more powerful Dow can pull the rest of the market up with it -- or whether the lagging Transports and the diverging A-D ratio will topple the market to the downside.

Question: Russell, you place a great deal of emphasis on your **Primary Trend Index (PTI).** But is the PTI a leading, coincident or lagging indicator?

Answer: The PTI at times can lead, at times it's coincident, and at other times it will lag. But it's the **trend** of the PTI that is so important. Also, it is the PTI's action in confirming or not confirming the major averages which is so important. For instance, again and again during the rise of the past seven years the stock averages would correct while the PTI would merely move sideways. But in all those years the PTI never broke down, indicating that the foundations of the market remained strong, even though the averages appeared temporarily weak.

Again, the PTI has often pushed to new highs even while the market was locked in a trading range. When that happens, the PTI is telling us that the underlying structure of the market is strong, despite the lagging stock averages.

Personally, I won't believe this market is in real trouble until I see the PTI heading down on a **trend basis** -- until I see the PTI breaking below its 89-day moving average and continuing down. It hasn't done that in seven years. For the latest on the PTI, check the chart above.

Watch These Three: My old friend, Marty Zweig, noted that every bear market of the last 100 years was set off by one or more of the following three conditions: **(1) chronic deflation**, as was the case during 1929-32 and 1937-42; **(2) extremely high price/earnings ratios,** as per 1946-49 or 1987; and **(3) an inverted yield curve,** in which shorter-term rates rise above longer-term rates, which, of course, indicates a money crunch or a potential financial crisis.

How do the above fit in with the situation today? As for #1, we have mild deflation in selected areas, but we certainly don't have broad, all-encompassing deflation. Concerning #2, extremely high P/E ratios are here, no question about that. As to #3, we don't have inverted yields. The yield on the T-bills is about 5% while the yield on the 30-year bond is just below 6%, and the yield on the 10-year note is around 5.76%. T-bill yields would have to rise above 6% to give us an inverted yield.

FED: The Fed's been talkin' the talk, but it has not been walkin' the walk. The talk is that the Fed mighta, coulda, shoulda, raise interest rates. It hasn't happened yet. What the Fed has been doing is allowing M-3, the broad money supply to boom at an annual rate of almost 10%. At the same time, the Adjusted Monetary Reserves have been booming. So in the face of Greenspan's verbal caution and warnings you have to ask yourself the question, "What's really going on?" **Russell Opinion:** I believe that Greenspan is genuinely worried about the Asian situation (which is now getting totally out of hand in Indonesia), and he wants to keep the US economy floating in liquidity. As for higher rates, Greenspan is afraid that a rate boost at this time would strengthen the dollar and knock the yen down ever further. Note: Japan's central bank just spent $17 billion trying to bolster the yen. It's been a complete waste of money, and the yen remains scraping along on its low.

How bad is it in Asia? Hong Kong exports are sinking, China is knee-deep in inventories and as for Indonesia -- on May 13 the Indonesian stock market dropped 7% while the rupiah fell 15% against the dollar. If you, as an American, had been holding Indonesian stocks you would have lost 24% of your money overnight on the combination of a smash in both the stocks and the currency. Now that's a real bear market.

INVESTMENT POSITION: The bull's in the box. If the Dow was to turn down and break below 8898.96, I'd probably replace the bull with a question mark. But that hasn't happened, so why jump the gun?

It seems to me that the "big money" has begun to question the prevailing concept of "corporate profit growth as far as the eye can see." Consequently, big money has begun to take some profits, and thus selling pressure has been gradually increasing. Result: at this point, it appears to me that both the stock market and the bond market have lapsed into trading ranges. Although bonds have not been particularly strong, I feel the longer-term bond picture is pretty good. The Treasury has been cutting back on its bond issuance, liquidity has been building, and there's a good possibility that business will slow down by year-end. Yield on the long bonds has hung around 6%. In contrast, the average yield on stocks is 1.5%.

This isn't a great time to try to do something "brilliant." I say that because the market picture has turned murky. For new money, I'd advocate going for the sure return, unglamorous as it is, and that means T-bills, notes and bonds. Yeah, I know that Soros is playing the D-mark against the British pound, but remember, if you speculate and make a profit you're in partnership with the IRS. But if you speculate and lose, buddy, you're on your own. That's why smart investors only speculate on "sure things." Oh yeah, I forgot, in the market there's no such thing as a sure thing.

DOLLAR and the EURO: I don't know whether the US is taking the euro very seriously, but I take it very seriously. The euro is most definitely going to happen; moreover, I believe that European leaders see the euro as deadly serious competition for the dollar.

Of course, there are skeptics and detractors. For instance, William Safire in a *NY Times* essay writes of the euro, "Suddenly the loss of control of national destiny will become clearer to those told to suffer in the name of Continental discipline. Result: resentment, ethnic unrest, banker-phobia, riots and worse." **Russell Retort:** I don't agree, I think the euro

will work, and I think it will be a source of pride for Europeans, even if it does incur some hardships.

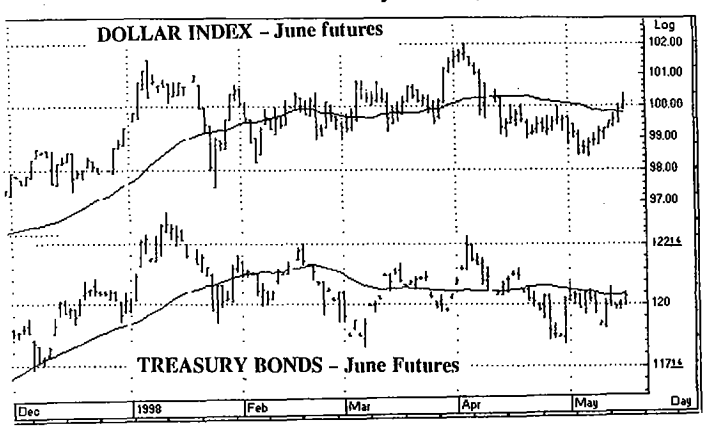
Two weeks ago, after much bitterness, European leaders reached an agreement -- the first head of the new all-European central bank would be the former head of the Dutch central bank, Wim Duisenberg. But instead of serving out his eight-year term, Duisenberg will step down after four years and the Frenchman, Jean-Claude Trichet, will take over leadership. Trichet is a tough conservative, and is known to be very pro-gold. The rumor is that the euro will be backed by anywhere from 5% to 20% gold, which will be in stark contrast to the dollar which is a fiat (paper) currency lacking any gold backing at all.

Advanced trading in euro futures began last week and leading banks in the US and Europe will be trading the futures. The actual euros will come into existence next January. Guy Whittaker, Citibank's global head of foreign exchange said, "We thought we would take the initiative and establish a gray market. As a leading bank, we need to take a leading role in this." Citibank, which trades more than 140 different currencies in 100 countries, will offer a full range of interest rate contracts and options, using the Euro, including forward contracts and swaps.

Russell thoughts: I'm certain that the Europeans want the euro to be a major competitor to the dollar. The dollar is currently used as a leading reserve in central banks around the world. The euro will serve as an alternative reserve currency. When this happens central banks will have to sell dollars in order to diversify into euros, maybe as much as a trillion dollars. This will put potential pressure on the dollar and there will be a sub rosa battle to see which currency, the dollar or the euro, will be the stronger currency and the preferred currency.

This is important: the US is still the world's largest debtor whereas the European Union will be a major creditor. The US will continue running chronic trade deficits while Europe will build up large trade surpluses. The US has one of the lowest savings rate in the free world whereas Europeans have no problem saving. Europeans have been warned to brace for the changes that lie ahead. Americans might very well do the same.

DOLLAR and BONDS: The first thing you'll notice here is that the dollar and the bonds tend to move together or at least they tend to rally and decline together. From peaks in early April, the Dollar Index and the June bond futures both declined. The bonds hit a low on April 30 and the dollar hit a low on May 5. I show the dollar in a rallying mode, but still slightly below its 34-day moving average. The bonds may be, and I emphasize **may** be, trying to build a bottom. Major support for the June T-bond contract comes in at about 118 ½. A rally by the June bonds above 121 would be the first real sign of strength. From another standpoint, the center of equilibrium for the cash bond seems to be the 6% yield level. For weeks the bonds have teetered on either side of 6%. That's the story so far, and it's not too exciting -- you might even say that both items have been fluctuating within broad trading ranges.



NOTES & QUOTES: I get an occasional letter from a subscriber that runs like this: "Russell, why don't you cut out all that Notes and Quotes stuff. I pay you money to read your comments about the market, not your comments about life or films or the price of a house in Seattle. Kill it Russell, it just doesn't interest me." And then I get other letters that say, "Russell, the real reason I subscribe to your letter is the Notes and Quotes. That section saves me a ton of reading, and I don't know where I could get that stuff anywhere else. Keep it up." So my answer to the second letter is "Thanks, I appreciate it." My reply to the first letter is this: "I hear what you're saying and here's what you should do. Take a pair of scissors and just cut off the Notes & Quotes section. My market sections still offer you more than most other letters, and Notes & Quotes is just a free extra."

Of course, there's this consideration. I've been writing these Letters for 40 years. After 40 years it dawns on a person that there's more to life than which way the stock market is going. On that premise, I started Notes & Quotes. And I gather that most, and I say most, subscribers seem to like this section. Besides, I read a LOT, and it seemed a waste to read all that material and do nothing with it. Thus -- Notes & Quotes.

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Y2K Again: In a May 4 piece on the Op-Ed page of the *WSJ* Edward Yardeni, managing director of Deutsche Morgan Grenfel, warns about Y2K. He writes, "I am a Y2K alarmist, having previously predicted a 40% likelihood of a recession in the wake of Y2K computer crashes. Despite many warnings, the situation has only worsened. The recession odds are now up to 60% in my estimation, and there is even a possibility of a depression. The time has come to mobilize against Y2K as if for war . . . The likely recession could be at least as bad as the one during 1973-74 . . . The US may experience a $1 trillion drop in nominal GDP and a $1 trillion loss in stock market capitalization." **Russell Comment:** With these remarks Yardeni might be taken for a kook, except for the fact that Wall Streeters know that he is a very important, competent economist.

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I ended Letter 1250 with an excerpt from the London *Economist* (probably the single most important magazine of economics) in which they stated that America was in the throes of a "bubble economy." Evidently, the *Economist* got its share of arguments. In the May 9th issue, the *Economist* answered its objectors. Here are some of its retorts:

Further thoughts on America's bubble economy

THREE weeks ago, The *Economist* suggested that America is experiencing an asset-price bubble. The thought has provoked both debate and abuse. Now, the "B-word" itself risks falling victim to speculative excess. Over those three weeks Wall Street has fallen, then rebounded to a new high as fresh data appeared to show that America's economic miracle remains intact, then slipped again. Does this mean that we were wrong? Sorry to keep spoiling the fun, but no.

Our previous leader contained two arguments. First, that the explosion in share prices, the wave of mergers, rapid rises in property prices and an acceleration in monetary growth are all classic symptoms of a bubble, and the longer it inflates the more damage it will cause once it pops. Second, that the Federal Reserve should raise interest rates to let some air out of the bubble before asset inflation feeds through into consumer prices and does more damage.

In response, critics have claimed that share prices are not overvalued. It is true that some part of the rise in share prices reflects better economic fundamentals, but there is no room for doubt that on standard, time-tested valuation measures, prices are way out of line. Only on the view that the old indicators no longer apply can you argue that the market is fairly

valued. No one can be sure that the world has not suddenly changed. But to say that it has is to make a helluva bet—one that most people would be wise to make only with someone else's money. Some argue that the market is much more transparent than was Japan's in the late 1980s and therefore less prone than Tokyo was to a financial bubble. Yet many of the "new economy" factors said to be justifying higher Wall Street valuations—hopes that inflation is dead and that new technology is boosting growth—are far from transparent.

* *

The super mergers continue, far surpassing anything that occurred in the 1980's "decade of excess." Six of the 10 largest corporate mergers in history (all over $25 billion) have taken place in 1998. When will it end? Probably when the next bear market deprives corporate leaders of their main "currency," the high-flying stocks of their own companies.

* *

A few futurists believe that the "rule of threes" will now take over. This rule states that in competitive, mature markets, only three major players can survive, along with a number of smaller niche players. The three "biggies" control 70% of their markets with the remaining 30% divided among the smaller niche survivors. The rule of three has already become fact in beer, rental cars, cereals, tires, insurance, aluminum, oil companies, chemicals, airlines, pizza chains, soft drinks, and athletic shoes.

* *

With all the hysteria about EntreMed and its cancer-tumor shrinkage technique, San Diego's Agouron Pharmaceutical Inc. also has a cancer-fighting drug, which is actually closer to FDA approval. During a variety of animal studies, Agouron's compound reduced growth in tumors by anywhere from 70% to 85%. Agouron's approach, called angiogenesis, seeks to inhibit the formation of new blood vessels that feed the growth in tumors. The EntreMed explosion was a study in hype, not knowledge.

* *

You read the European papers or the *International Herald Tribune* and all you see is news about the euro, the vision, the hope, and the problems. The worst problem would be one of the 11 nations pulling out because of political reasons such as a revolt of the populace due to unemployment or a financial crisis. There are no clear procedures for exiting, but governments can always break treaties by invoking overriding national interests. A nation that went its own way would lose thousands of jobs as doubts grew about its economic prospects. If a major nation such as France pulled out the result would be so devastating that it is doubtful whether the whole European union would hold together. A major problem is that each of the 11 original members has a different tax system, and thus there would be pressure on the higher-taxed nations to bring taxes down to the level of the lower-taxed nations or vice versa. Furthermore, there would be an incentive for workers in the higher-taxed nations to move to the lower-taxed area, much as there is a movement in the US towards Nevada, Florida and Texas, all states with no state income or corporate tax.

* *

Speaking of Nevada, my buddy, Aaron Russo, is running for Governor of Nevada, and he's on fire. Aaron is really stirring things up in Nevada, and I honestly think he's going to win. Nevada subscribers, "Are you tired of the status quo -- vote for Russo." I've known Aaron for many years. If Aaron wins the governorship, I can guarantee one thing -- Nevada will be in the news.

* *

You love to gamble in Nevada? Believe me, the state loves you. Why? Because the casinos will almost surely part you from your bankroll. How do I know? I know because of the figures. In March alone Nevada casinos won $673 million from the public. And you wondered where Nevada casino owners get the money to keep building those big, beautiful hotels.

* *

Chrysler, Mercedes, what's going on? For one thing, the merger would dramatically expand Mercedes manufacturing and dealership operations in the US, while doing the same thing for Chrysler's non-existent position in Europe. It would also introduce Daimler's great engineering ability to Chrysler. Chrysler would gain by being connected with the great Mercedes name. Interestingly, there will be no synergy, no-over laps in the Daimler-Chrysler merger -- therefore, few if any layoffs. The fact is that there is a global over-production of cars, and this will mean more mergers plus some auto companies going out of business. The trend will see today's 39 auto companies probably reduced to 20.

* *

The Internet: Nobody knows how much the Net will affect us; my own belief is that the effects will be HUGE. Today retailing depends very much on imperfect consumer information. You go into a store and buy a white-on-white men's shirt for $16. But then you go on the Net and find that there are two dozen white shirts offered, better quality, at prices down to $11, with one store in Detroit advertising top quality white shirts on sale for $9.95. You kick yourself and vow that from now on you'll buy your shirts and probably everything else on the Net.

* *

Item from the May 4 *NY Times:* "Daniel Nissan, president of a New York grocery start-up called Netgrocer offers 4,000 items from its Web site. Nissan is just one of many entrepreneurs who believe that the grocery store of the future will exist on the home computer. But he contends that Netgrocer has the inside track on being the first on-line grocery service (he delivers his groceries) to turn a profit in what could be a brutally competitive business."

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Item: Crown Books, a large discount-seller of books, has announced that it is losing money and may not be able to continue in business. Crown is NOT on the Net.

* *

Standard retailing depends on imperfect consumer information, limited time for comparison and shopping, and a goodly portion of brand loyalty. Writes Robert Kuttner in *Business Week,* the Net "acts like a solvent for all three . . . Moreover, the more price information is diffused on the Net, the more adroit customers become at haggling . . . This wreaks consumer revenge on industries such as airlines that have restored profitability by counting on consumer ignorance to sell the same product at different prices. Likewise autos." Within two years, according to J. D. Powers, half of all new car buyers will use the Net for price information, cutting into dealers' already thin margins. **Russell Comment:** It's clear to me that the Net is going to revolutionize retailing and a lot of other industries as well. Just give it time.

* *

Quietly (at least it's made very little noise here in the US) the economic situation in **Asia** is deteriorating. Ed Hyman and Nancy Lazar of the *ISI Group* follow this picture probably as close as anyone, and this rundown is from their April 27 report. "It's not pretty, and by summer (actually it's happening already) exports from Asia will be exerting increasing pressure on US prices." I watch the Nikkei (Japanese stock average) hourly here, and it continues weak. In fact, it can't seem to hold above 16,000 (remember, the Nikkei topped out in late-1989 at just under 40,000). Item: Interest rates on the 10-year Japanese government bond are at 1.435%, lowest in history. So fearful are the Japanese of economic conditions that they are accepting these minuscule yields on the thesis that "even a coupon of less than 2% is better than nothing, as long as you are assured of getting your principal back at the maturity date." **Russell Comment:** To me the big question is this -- will the Chinese devalue the yuan? China has the lowest wages in Asia, but they are being out-exported by other Asian nations that have already devalued. Also Chinese unemployment is very high. There's pressure to devalue or at least let the yuan float free. The black market in the yuan will tell the story, and in the black market the yuan is weakening.

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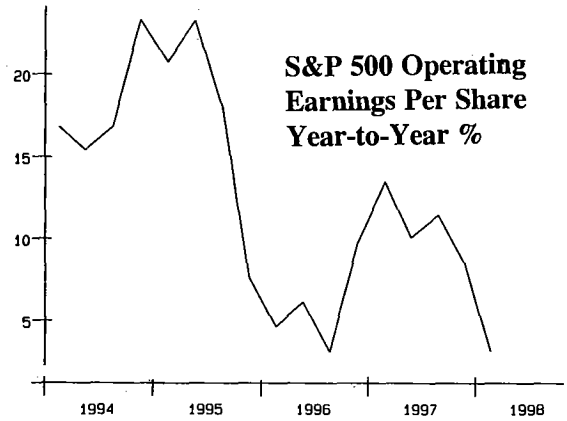
Every analyst has his eyes glued to S&P and Dow **earnings.** Ed Hyman of *ISI Group* notes that with most companies having reported, "First quarter operating earnings are now expected to

be up 3.5% year-to-year, which is a clear slowdown from last year's 13.8% pace, and probably marks a turning point for earnings growth. Nasdaq earnings have actually **declined** year-to-year." **Russell Comment:** Current prices are obviously based on an increase in earnings during the second half of '98 and into '99. We'll see. The chart below is courtesy of the *ISI Group*.



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Entertainment Records: The highest grossing independent film was Teenage Mutant Turtles with $135 million in '90. The highest grossing movie series was the James Bond series -- $2.82 billion worldwide. The biggest money loser was Cutthroat Island losing $82 million in 1995. The actor with the most consecutive $100 million grossing films is Tom Cruise. The actor with the most leading roles was John Wayne with 142 films. The most successful director is Steven Spielberg, whose films have grossed $4.93 billion worldwide. The most prolific US director was D. W. Griffith, with over 500 shorts and features. The band with the most #1 music albums was the Beatles with 18. The male artist with the most gold albums was Elvis with 61. The female artist with the most gold albums is Streisand with 38. The artist with the most consecutive years with a top-40 hit is Elton John with 28 (1970-98). The longest running TV show is Meet the Press (50 years -- 1947 to the present). The most consecutive years as a top 10 show goes to 60 Minutes (18 seasons -- 1977-96). The most watched series worldwide is Baywatch with 1 billion viewers in 140 counties.

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The parade of witnesses who are talking about their horrific **IRS** experiences in front of the Senate's Finance Committee are not there by mistake. The Republicans are going to use the "horror show" as a backdrop in their plans to get rid of the current outrageous tax system. The 17,000-page tax code is a dinosaur that nobody, including IRS agents, fully understands. On top of that, it requires billions of man-hours every year to administer their taxes. Politicians have been talking about sinking the tax code for years and nothing, nothing has been done except to make it more complicated. Now Sen. Tim Hutchinson (Republican from Arkansas) is preparing a bill entitled, "The Tax Code Termination Bill" which would end the current tax code by Dec. 31, 2001. Already 38 Senators and 154 House members have signed on to co-sponsor the bill. **Russell Comment:** When I think of the chances of any bill passing Congress, I always consider one crucial item -- how will it effect the Congressmen and Senators themselves? I think even our politicians (at least a lot of them) are fed up with preparing their own income taxes and with how much the tax code takes out of their earnings. I'm beginning to think a sales tax or a flat tax may have a chance. If the passive US voters would stand up and be counted, of course, a new tax code would have a much better chance. As for Clinton, he'll go where the polls and the money tell him to go.

* *

Question: Why is Clinton's second term in office like the Seinfeld series? **Answer:** Because they are both about NOTHING . . . When former Democratic Congressional star Pat Schroeder was asked what President Clinton's "legacy" would be, she searched her thoughts for a moment and then said, "Survival." Meanwhile, in Washington the talk is that there is a good chance that Monica Lewinsky will be heading for a perjury indictment with Clinton named as an unindicted co-conspirator for obstruction of justice. Such a trial would probably start in July, but it would not preclude an impeachment report to the House covering both Lewinsky and Whitewater. In the face of all this, Clinton's lawyers and friends keep up their relentless, desperate attacks on Ken Starr.

* *

Question: What's wrong with the Republican Party? **Answer:** It's cowed and spineless. Says Rep. Lindsey Graham, a young conservative from South Carolina, "There is a deep fear that whatever proposal we put forth will be turned against us." Again and again, Clinton has vetoed bills and plans put forth by Republicans. As a result, the GOP is gun-shy, wimpy, and almost voiceless.

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Forbes magazine has finally spilled the beans. Options (which have been issued wholesale in the '90s) dilute earnings. In fact, in 1997 the 200 largest US companies have issued stock options to management and employees equal to 13% of their total shares outstanding. As *Forbes* put it, "Options dilute per-share earnings because they increase the divisor applied to net profits to figure per-share earnings. If exercise of options increases the number of shares outstanding by 10%, that results in 10% dilution. Thus a 20% increase in net earnings produces an increase of only 9% in earnings per share."

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Last week Japan's Nikkei stock average broke down to the low 15,000s, its lowest level in six months. It's amazing, in Japan the government is literally giving money away at ridiculously low rates -- but nobody wants to spend it. Give the Japanese more money and they save it, cut their taxes and they save the difference. The Japanese have grown up with an ingrained psychology of exporting and saving, while Americans have grown up with an ingrained psychology of importing and spending. The Japanese have so much savings that even as business fizzles in Japan, they don't feel that there's anything wrong.

* *

I spent last Sunday at Berkeley with my son, Ryan. Berkeley is probably the leading public university in the nation, and its facilities are amazing. There's always something going on at Berkeley -- this time the feature was a guy who had attached himself to the campus tower, and was hanging by a slim rope 150 feet off the ground. He was protesting animal vivisection. The prevailing equipment at Berkeley is a knapsack loaded with books strapped to their backs. You can sense the intellectual atmosphere at Berkeley simply by observing the serious looks on the thousands of students who hurry by the many book stores situated in and around the campus. The local music stores stock the most amazing collections of CDs that I've seen. If you never saw the '60s counter-culture of America and you're curious, I suggest you take a trip to Berkeley and specifically to Telegraph Avenue. This is the land of the hippies, and anything, and I mean anything, goes. I fully believe you could walk down Telegraph covering yourself with nothing but a purple fig leaf and nobody would give you a second look. Free expression, intellectual leadership, brilliance, it's all there at one of the world's great universities – it's called Berkeley.

* *

What's Michael Ovitz up to? He wants to establish a new NFL team in LA. Supported by a high-powered collection of who's who in LA, including Magic Johnson, Tom Cruise and Kevin Costner, Ovitz has informed the NFL that he's ready to build a stadium, own a franchise and be ready to play in the year 2002. Ovitz told the NFL that he would be principal owner of the $750 million, predominantly privately funded, new project. The proposed stadium would be modeled after the Carolina Panther's 75,000-seat stadium in Charlotte, but dressed up more in Southern California fashion (it would include shops and restaurants and an entertainment zone). Good luck, Michael, but I doubt if Disney will be thrilled

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Martin "Buzzy" Schwartz has just sent me his new book, "Pit Bull, Lessons from Wall Street's Champion Trader." Five comments about this book: (1) This guy can really write. (2) He can really make money. (3) Buzzy has both chutzpah and humility, a rare combination. (4) He has done it all -- he knows how the markets work, from the inside and the outside. (5) Buzzy tells the fascinating story of a fellow who is a student, a great trader, a gambler, a serious investor, a gold-phile, and above all a learner. This is a guy who lost $800,000 overnight and made it back and more over the following two months. For me, the majority of investment books have tended to be boring, repetitive and turgid. Not this one; there's not a dull page in it. I recommend this book highly; this is one of the few financial books that is really a page-turner.

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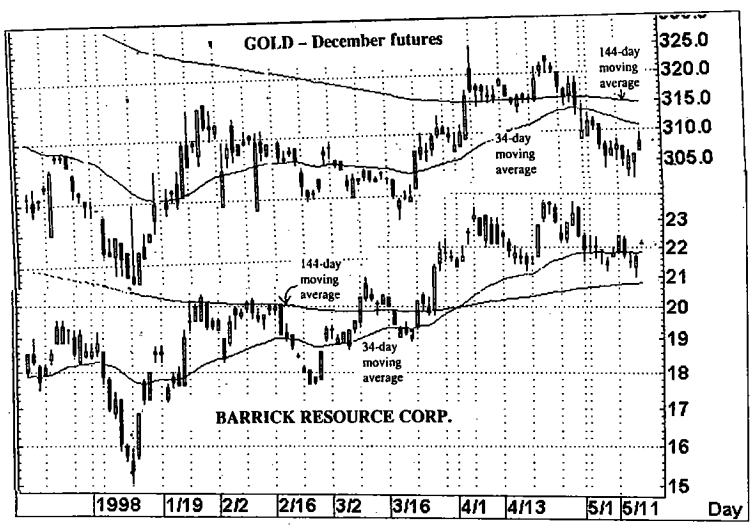
I've messed with the **Internet** for months, but it was maddeningly slow so finally I lost interest. But last month I signed on with "Road Runner" via cable, and wow, what a difference. Now I've learned to love the Net. You can sit there all day and pop out info. In fact, the problem is that it's information over-load. I bought a few books on the Net, discounted, of course, and I immediately wondered how any retail book company can stay alive. You hear about a book, you look it up on the Net, you read a review or a few reviews, and your order it, discounted and mailed out to you within a day or so. The times are a'changin', or more properly, the times, they have changed.

* *

I thought I'd "had it" with dogs. I've had Mastiffs, Great Danes, and Bull Terriers. They're all a lot of work, and when my last dog died about 12 years ago I vowed that I'd never have another canine. But a few months ago my mother-in-law, who likes to travel, gave us a two-year old standard poodle. This is a great dog, by far the best that I've ever had, so I take back my vow never to have another dog. Poodles are conceded to be the smartest of all dogs, and they have the unique and wonderful property of not shedding plus they are not "chewers." Their curly "wool" keeps growing, however, so you have to trim them periodically. Poodles were originally bred as German "gun dogs," used for hunting and retrieving ducks (poodles love water). My new white (her name is Lauren) poodle is a fast learner, and has a great personality. She loves people, is gentle with children, and yet is a great guard dog -- when anyone even approaches the house she charges up to the door barking a series of loud warnings. Conclusion: if you want a dog, get a standard poodle; in my opinion, they're the Mercedes of dogs.

PRECIOUS METALS: Gold (Dec. futures) declined from April 22 to May 12. Note that the 34-day moving average is holding **below** the 144-day MA, an indication of weakness. Gold turned up on May 13, and it should now be in for some kind of rally -- with major resistance at 314 on the December futures.



The plus in the picture is the rising bottoms for gold, 287.30 on January 12, 299.20 on March 18 and 302.10 (intra-day low) on May 14.

I am not showing the XAU Gold/Silver Average since silver is so weak, it has biased that Average to the downside. So let's stick with gold. Barrick Resource (ABX) is one of the best of the gold shares, but here we see a "head-and-shoulders" top pattern, and it will be important to see whether this pattern holds or breaks down. Support should come in at 20.25, which is the current level of the 144-day MA. You will note, if you draw a trendline through the lows shown on this chart, that the rising trendline was violated last week, not a good sign. One plus - the 34-day MA is still holding well above the 144-day MA.

LATE NOTES: The real reason that Greenspan is so reluctant to raise rates - the Asian situation. A boost in US rates would hit Asian currencies, many of which have already collapsed. Japan, with rates already ridiculously low, is talking about dropping rates again. This would amount to literally giving money away, but when people are worried and when people have a long history of saving, you can give money away and they won't spend it.

My best comparison with the Japanese situation is back in 1940-'42 here in the US. At that time my father and I went through "breakdowns" of buildings in NYC. You could buy brownstones on the East Side for 10% down, brownstones that were 50% occupied and yielding 25% on your money. These brownstones are now worth millions, but in 1941 you literally couldn't give them away. Shades of Japan in 1998.

The Chinese situation is becoming grim. The fear is that with demand slowing in China, huge and rising inventories will be dumped on the rest of the world. *13D Research* [(208)726-1565] asks, "Suppose China's growth **really** slows down, as we expect? Suppose the excess inventories get out of control, which may already have happened, and imports or more commodities grind to a halt? Suppose excess inventories are then dumped on the world market? What will happen to prices for global commodities, world inflation and bond rates?"

There's a **grim struggle** taking place in the stock market. On the **plus** side we have the encouraging action of the bond market. On the **minus** side we have the deterioration in the advance-decline ratio (see page 1 chart) and the dramatic drop off of daily new highs on the NYSE. On Monday (May 18) the bonds rallied above their 34-day moving average. Again and again when it appeared the bonds were in trouble they have rallied back above their 34-day MA, and, of course, the stock market loves that kind of action on the part of the bonds. . . Another plus - the dollar has now turned very strong.

The deterioration in the technical action of the stock market has been going on ever since early April, and I take this very seriously. The strength in the dollar and therefore the bonds are probably a reflection of the Asian situation -- but to my mind, the deteriorating stock market action is more bearish than is the bullish action of the dollar and the bonds. Remember, the strong action of the dollar and the bonds is based on a bearish Asian situation, which in itself, is hardly a cause for celebration.

As I said earlier, both the stock and bond markets appear to be locked within trading ranges. Watch the cash S&P market -- if the S&P can rally above 1118.86 and then above 1122.07, such action will put the S&P in line to try for the high at 1130.00. Personally, I don't think that's going to happen. On the downside, watch 1095.14. If the S&P breaks below that level the next downside target would be the 1085.11 closing low of April 28. If that low is violated, the market will be in major trouble.